

October 28, 1996

Mary L. Cottrell, Secretary
Commonwealth of Massachusetts
Department of Public Utilities
100 Cambridge Street
Boston, MA 02202

Re: Massachusetts Electric Company Restructuring
25

DPU 96 -100, DPU 96-

Dear Ms. Cottrell,

Attached please find the comments of IRATE, Inc. on the proposed Massachusetts Electric Company restructuring.

Very truly yours,

W Curtis Collyer
vice president

15 copies attached

Massachusetts Electric Company

Restructuring Plan

D. P. U. 96-25

Irate, Inc. is a not for profit organization representing electric utility customers on Cape Cod. Irate has been active for a number of years keeping Cape Cod electric utility customers informed about matters which affect their service. We believe that the proposed settlement contained in the Massachusetts Electric (MECO) filing may establish some precedents influencing other utility's restructuring and therefore be of significance to customers of Commonwealth Electric.

Having had the opportunity to review the filing we submit the following comments.

1. The DPU has recognized the economic injury and damage to Massachusetts and its citizens resulting from excessively high electric power costs. In DPU 96-100 the DPU has ordered utilities to propose how they will address this problem.

The MECO filing fails to address, in any way, how the proposed actions will affect electric utility costs and electric utility rates over the life of the agreement and more importantly into the longer term future. Additionally, the filing does not address how MECO costs and rates will be judged when compared to national leaders and how performance incentives would be used to encourage cost and rate reduction.

It is the view of IRATE, Inc. that the consideration of major transformations in the electric utility industry needs to include careful analysis of how the proposed changes will impact on the high rates which have created the need to reorganize.

We believe that such an analysis needs to be as extensive and thorough as the demand forecasts (with a 20 year time frame) which utilities periodically generate. When establishing the models for projecting costs and rates over a twenty year time frame, attention needs to be given to the selection of the national peer group which will determine success or failure in bringing Massachusetts rates (and costs) in line with the best in the nation.

The decision to order the proposed restructuring needs to be based on a clear assessment of the possible results and a clear assessment of the risks and uncertainties.

2. **The Standard Offer** Many if not a majority of residential and small commercial customers will want to opt for the ease and simplicity of continuing their current supply arrangement. It does not seem to be in the best interests of those customers to have an energy component whose cost will have an annual increase of 10% per year. While the market price during this period may be more or less than the regularly increasing contract price, the customer remains at risk for MECO revenue shortfalls (plus interest) while only partially sharing in the return of overcollections.

We believe that the distributing utility has the experience and position to be a cost effective supplier of the energy component and should be encouraged and rewarded on their ability to do so. We believe that the energy component should reflect the utilities cost and not some artificial target price for which the utility bears no responsibility.

3. **Customer Choice** The authors of the MECO proposal have aggregated costs into four categories: transmission, distribution, access charge and energy or standard offer. This filing provides the customer with the opportunity to make a choice only about the supplier of the energy component which is a relatively small part of the total cost. The majority of the cost which the ratepayer will bear is exempted from the customers options. Of particular concern is the apparent assumption that some of these elements of cost lack potential for improvement in efficiency and that therefore they should be afforded 3% annual inflation increase irregardless of actual cost or actual accomplishment. Of equal concern is the lack of cost based performance measures when judging MECO performance in the delivery of these services.

It is IRATE's opinion that all the elements which comprise the charges for electric power should be exposed to comparison of cost / performance with the best in the nation and that the agency responsible for the service should be compensated on the basis of comparative performance.

IRATE also believes that it is in the best interests of the public to be informed about the elements of cost which comprise his rate and the existence of accruals of cost which will cause future rate increases. The status of these accounts and the customers prorata responsibility should be disclosed on a quarterly or semi annual basis.

IRATE objects to the inclusion in this proposal language which directs the parties to agree to seek the overturn of the Supreme Judicial Court ruling on the allowability of non cost justified externalities in the justification of DSM programs. While not of direct interest to Cape Cod customers, IRATE questions the justification of what appears to be a \$65 million rate increase for MECO without the normal rate hearing process.

4. **General Overview** Implementation of this proposed restructuring will essentially shift the basis for the supply of energy for most MECO customers from long term contract (with declining costs) to short term market pricing with uncertain costs. Meanwhile all the other elements of cost will continue to rise unchecked.

Because of the uncertainty surrounding the electric utility industry in the United States many projects to upgrade, expand capacity or to install new technology in power generation have been on hold. Projects to meet current and future environmental standards need to be authorized and implemented. In the mean time, as the economy continues to expand, incremental excess power is shrinking. It seems reasonable to project that at some point the market price for electric energy will reflect these change forces by rising sharply.

It is the view of IRATE that these change forces create major risks associated with the restructuring of the electric utility industry within Massachusetts. These risks are not explicitly mentioned or dealt with in the subject filing.

In the worst of all worlds, a restructured electric utility industry would expose the customers to a situation where the non energy components of cost continue their gradual cost increase and the energy component takes a huge cost increase as customers are exposed to short term market prices as they spike upward. _

This filing should not be approved until the risks have been fully assessed and the likely results found to worth those risks.